

IN RE: Annual Review of Base Rates for Fuel Costs) ORDER
of Carolina Power & Light Company.) APPROVING BASE
) RATES FOR FUEL
) COSTS

At the public hearing, William F. Austin, Esquire, and Len S. Anthony, Esquire, represented CP&L; Elliott F. Elam, Jr., Esquire, represented the Intervenor, the Consumer Advocate for the State of South Carolina (“the Consumer Advocate”); and Florence P. Belser, Staff Counsel, represented the Commission Staff. The record before the Commission consists of the testimony of Kevin B. Cardwell, Michael J. Settlage,

and Ronald R. Penny on behalf of CP&L; the testimony of Jacqueline R. Cherry and William O. Richardson on behalf of the Commission Staff; and five (5) hearing exhibits.

Based upon the evidence of the record, the Commission makes the following findings of fact and conclusions of law:

FINDINGS OF FACT

1. The record of this proceeding indicates that for the period from January 1997 through December 1997, CP&L's total fuel costs for its electric operations amounted to \$551,489,959. Hearing Exhibit No. 4, Accounting Exhibit E.
2. Staff reviewed and compiled a percentage generation mix statistic sheet for CP&L's fossil, nuclear, and hydroelectric plants for January 1997 through December 1997. The fossil generation ranged from a high of 58% in July and September to a low of 39% in March. The nuclear generation ranged from a high of 57% in March to a low of 41% in July and September. The percentage of generation by hydro ranged from a high of 4% in March to a low of 1% in July through December. Hearing Exhibit No. 5, Utilities Department Exhibit No. 3.
3. During the January 1997 through December 1997 period, coal suppliers delivered 10,022,163.32 tons of coal. The Commission Staff's audit of CP&L's actual fuel procurement activities demonstrated that the average monthly received cost of coal varied from \$38.57 per ton in March to \$46.13 per ton in April. Hearing Exhibit No. 4, Accounting Exhibit A.

4. According to CP&L's witness Michael J. Settlage, the performance of CP&L's nuclear units equals or exceeds that of comparable facilities as demonstrated thusly:

CP&L system actual capacity factors –

CP&L data for PWRs			
January 1997-December 1997	89.5%	1 unit	refueled
CP&L data for BWRs			
January 1997-December 1997	96.9%	1 unit	refueled

National average capacity factors -

NERC data for PWRs		
5 year 1992-1996	76.0%	
NERC data for BWRs		
5 year 1992-1996	65.2%	

5. Staff collected and reviewed certain generation statistics of major CP&L plants for the twelve months ending December 31, 1997. Hearing Exhibit No. 5, Utilities Department Exhibit 4. The nuclear fueled Robinson 2 plant had the lowest average fuel cost at 0.43 cents per kilowatt-hour. The highest amount of generation was 13,063,345 megawatt-hours produced at the coal fueled Roxboro Plant.

6. The Commission Staff conducted an extensive review and audit of CP&L's fuel purchasing practices and procedures for the subject period. The Staff's

accounting witness, Jacqueline R. Cherry, testified that CP&L's fuel costs were supported by the Company's books and records. Testimony of Cherry; Hearing Exhibit No. 4, Accounting Department Exhibits.

7. The Commission recognizes that the approval of the currently effective methodology for recognition of the Company's fuel costs requires the use of anticipated or projected costs of fuel. The Commission further recognizes the fact inherent in the utilization of a projected average fuel cost for the establishment of the fuel component in the Company's base rates that variations between the actual costs of fuel and projected costs of fuel would occur during the period and would likely exist at the conclusion of the period. S.C. Code Ann. §58-27-865 (Supp. 1997) establishes a procedure whereby the difference between the base rate fuel charges and the actual fuel costs would be accounted for by booking through deferred fuel expenses with a corresponding debit or credit.

8. The record of this proceeding indicates that the comparison of CP&L's fuel revenues and expenses for the period January 1997 through December 1997 produces an under-recovery of \$6,212,396. Staff added the projected over-recovery of \$96,840 for the month of January 1998, the projected over-recovery of \$213,819 for the month of February 1998, and the projected over-recovery of \$269,832 for the month of March 1998 to arrive at a cumulative under-recovery of \$5,631,905 as of March 1998. Testimony of Cherry, pp. 5-6.

9. CP&L's projected average fuel expense for the period of April 1998 through March 1999 is 1.304 cents per kilowatt-hour. This projected fuel expense includes an adjustment for the projected over-recovery at March 1998. Penny Testimony, p. 3.

10. Company witness Penny proposed that the Commission continue a fuel factor of 1.122 cents per kilowatt-hour for the next twelve-month period. Penny Testimony, pp. 3-4.

11. Hearing Exhibit No. 5 reveals that using the currently projected sales and fuel cost data and the cumulative under-recovery of \$6,212,396 through December 1997, the average projected fuel expense is estimated to be 1.302 cents per kilowatt-hour for the twelve months ending March 1999. Applying this fuel factor of 1.302 cents per kilowatt-hour would produce an estimated under-recovery of \$32,977 for the next twelve month period. The currently approved fuel factor is 1.122 cents per kilowatt-hour. Applying the currently approved fuel factor of 1.122 cents per kilowatt-hour would produce an estimated under-recovery of \$12,953,580 for the next period. Hearing Exhibit No. 5, pp. 3-4 and Utilities Department Exhibit 10.

12. During the period under review, Harris Unit 1 and Brunswick Unit 1 were down for refueling during some portion of the period. The nuclear units operated well during the period under review. All outages were reviewed by Staff (Hearing Exhibit No. 5, Utilities Department Exhibit 2A), and a determination was made by Staff as to the prudence of the outages. Staff determined that there were no Company actions which

required CP&L's customers to incur higher fuel costs. Therefore, no disallowances of any fuel costs during the review period were recommended. Staff also examined records and determined that CP&L had achieved a net capacity factor of 93.2% before any adjustments. Testimony of Richardson, p. 2.

CONCLUSIONS OF LAW

1. Pursuant to S.C. Code Ann., §58-27-865(B)(Supp. 1997), each electrical utility must submit to the Commission its estimates of fuel costs for the next twelve (12) months. Following an investigation of these estimates and after a public hearing, the Commission directs each electrical utility "to place in effect in its base rate an amount designed to recover, during the succeeding twelve months, the fuel costs determined by the Commission to be appropriate for that period, adjusted for the over-recovery or under-recovery from the preceding twelve-month period." Id.

2. S.C. Code Ann., Section 58-27-865(G) (Supp. 1997) requires the Commission to allow electrical utilities to recover "all their prudently incurred fuel costs... in a manner that tends to assure public confidence and minimize abrupt changes in charges to consumers."

3. As stated by the Supreme Court in Hamm v. South Carolina Public Service Commission, 291 S.C. 178, 352 S.E.2d 476, 478 (1987), Section 58-27-865(F) requires the Commission "to evaluate the conduct of the utility in making the decisions which resulted in the higher fuel costs. If the utility has acted unreasonably, and higher fuel costs are incurred as a result, the utility should not be permitted to pass along the

higher fuel costs to its customers.” “[T]he rule does not require the utility to show that its conduct was free from human error; rather it must show it took reasonable steps to safeguard against error.” *Id.* at 478, citing Virginia Electric and Power Co. v. The Division of Consumer Council, 220 Va. 930, 265 S.E.2d 697 (1980).

4. The Commission recognizes that Section 58-27-865(F) provides it with the authority to consider the electrical utility’s reliability of service, its economical generation mix, the generating experience of comparable facilities, and its minimization of the total cost of providing service in determining to disallow the recovery of any fuel costs.

5. Further, S.C. Code Ann. §58-27-865 (F) (Supp. 1997)

provides that:

[t]here shall be a rebuttable presumption that an electrical utility made every reasonable effort to minimize cost associated with the operation of its nuclear generation facility or system ... if the utility achieved a net capacity factor of ninety-two and one-half percent or higher during the period under review. The calculation of the net capacity factor shall exclude reasonable outage time associated with reasonable refueling, reasonable maintenance, reasonable repair, and reasonable equipment replacement outages; the reasonable reduced power generation experienced by nuclear units as they approach a refueling outage; the reasonable reduced power generation experienced by nuclear units associated with bringing a unit back to full power after an outage; Nuclear Regulatory Commission required testing outages unless due to the unreasonable acts of the utility; outages found by the [C]ommission not to be within the reasonable control of the utility; and acts of God. The calculation also shall exclude reasonable reduced power operations resulting from the demand for electricity being less than the full power output of the utility’s nuclear generation system. If the net capacity factor is below ninety-two and one-half percent after reflecting the above specified outage time, then the utility shall have the burden of demonstrating the reasonableness of its nuclear operations during the period under review.

6. After considering the directives of §58-27-865 (B) and (G) which require the Commission to place in effect a base fuel cost which allows the Company to recover its fuel costs for the next twelve months adjusted for the over-recovery or under-recovery from the preceding twelve month period, in a manner which assures public confidence and minimizes abrupt changes in charges, the Commission has determined that the appropriate base fuel factor for April 1998 through March 1999 is 1.122 cents per kilowatt-hour. The Commission finds that a 1.122 cents per kilowatt-hour fuel component will allow CP&L to recover its projected fuel costs and, at the same time, prevent abrupt changes in charges to CP&L's customers.

IT IS THEREFORE ORDERED THAT:

1. The base fuel factor for the period April 1998 through March 1999 is set at 1.122 cents per kilowatt-hour.
2. CP&L shall file an original and ten (10) copies of the Fuel Rider within ten (10) days of receipt of this Order.
3. CP&L shall comply with the notice requirements set forth in S.C. Code Ann., §58-27-865(A)(Supp. 1997).
4. CP&L shall continue to file the monthly reports as previously required.
5. CP&L shall account monthly to the Commission for the differences between the recovery of fuel costs through base rates and the actual fuel costs experienced by booking the difference to unbilled revenues with a corresponding deferred debit or credit.

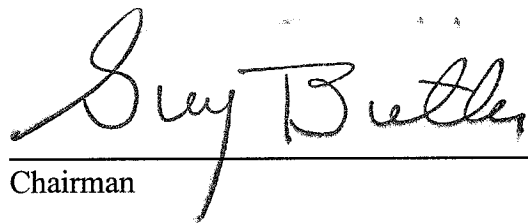
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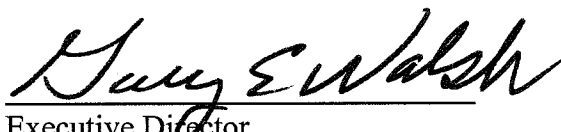
6. CP&L shall submit monthly reports to the Commission of fuel costs and scheduled and unscheduled outages of generating units with a capacity of 100 MW or greater.

7. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Deputy Executive Director

(SEAL)